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FINANCE & COMMODITIES
RBL Bank Q3 Net Rises 36%, Provisioning for Bad Loans Doubles

SHARES GAIN UP TO 16.64% Company expects right value of the stock as there are 'multiple suitors'

Zee Shares Gain After Agreement with Creditors; Brokerages not Convinced

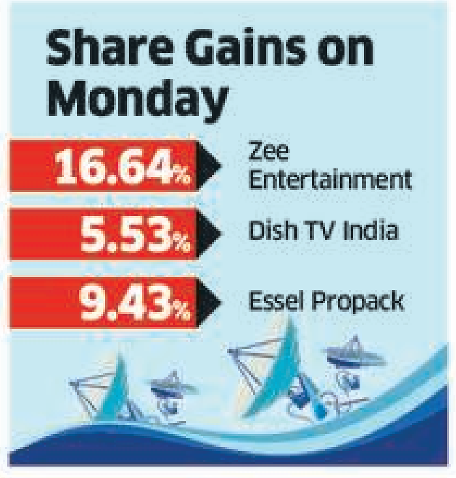
Our Bureau

Mumbai: Shares of Zee group companies rebounded on Monday after the company announced it reached an agreement with its lenders giving the company three months time to find a suitable buyer. Zee Entertainment Enterprises rallied over 16% to close at ₹372 apiece, while Dish TV shares gained 5.5% to close at ₹22.85 per share on the BSE. Essel Propack surged 9.43% to close at ₹107.

On Friday, these shares had plunged after a news report alleged links between the Essel Group and Nityank Infrapower and Multiventures, a company being probed by the Serious Fraud Investigation Office (SFIO) for deposits of over ₹3,000 crore after demonetisation.

The drop in share prices led to lenders selling some pledged shares, which, according to some brokers, belong to the promoters. Zee promoters' inability to bring in fresh shares or money to stop the sale of the pledged shares worried investors, prompting the management and lenders to go into a fire-fighting mode.

In a statement after the meeting with lenders late on Sunday, the Essel Group said it has been agreed that no default will be declared by the creditors due to the steep fall in the share price, and there will be co-operation among the lenders.



While analysts continue to be optimistic about the group's business prospects, concerns over promoters' indebtedness could hurt sentiment.

"We believe that the emerged developments will tone down management's potential to realize the value in business," said Edelweiss in a note to investors.

Sharekhan, the retail broking arm of BNP Paribas, downgraded the stock from 'buy' to 'hold' on account of the ongoing crisis. "Although the fundamentals of the Zee group remains intact, the vulnerability of the stock has gone up due to the recent events," said Gaurav Dua, head of research, Sharekhan.

"There could be a derating in the stock due to the ongoing developments which could change the price-to-earnings multiples of the stock."

The slump in the share prices on Friday prompted the Zee management to reach out to market participants to ease their concerns. In a conference call with investors on Monday, Punit Goenka, managing director, Zee, said the share price will not have any bearing on the deal.

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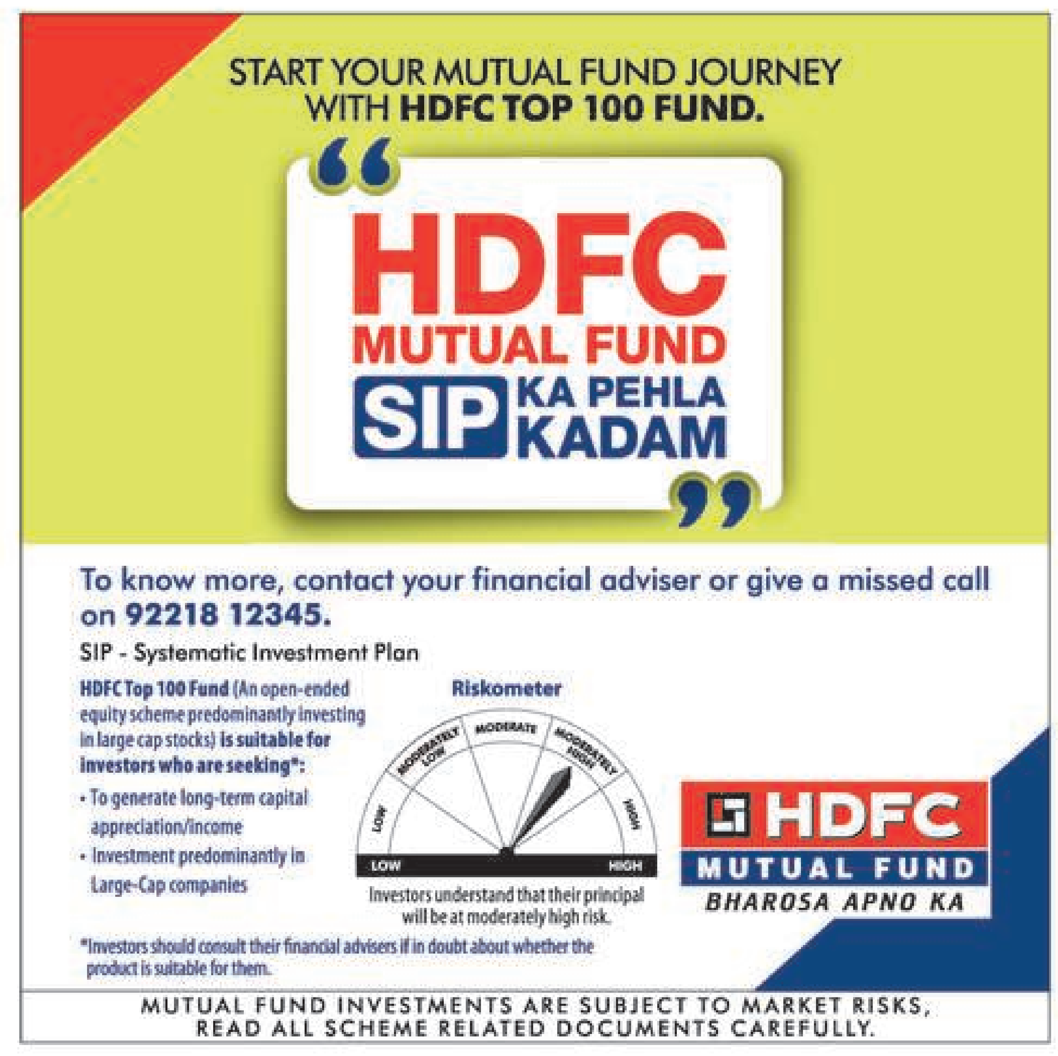

WEALTH MANAGERS ALSO RECOMMEND TAX-FREE BONDS LISTED IN SECONDARY MARKETS

'Investors can Look at 'AAA' Papers, Liquid and Ultra-short Term Funds'

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Mumbai: Wealth managers are suggesting that fixed income investors look at schemes with high exposure to AAA-rated paper, liquid and ultra-short term funds and tax-free bonds of PSUs available in the secondary markets.

"Investors are becoming risk-averse after the way events have played out in the past five months," said Ashish Shanker, head (investment advisory), Motilal Oswal Wealth Management. He advises investors to invest 80% in banking and PSU debt funds with AAA rating and a 20% exposure only to credit risk funds with a three-year time frame.

Shanker recommends Axis Banking and PSU Debt Fund, and IDFC Banking and PSU Debt Fund saying such a portfolio can earn investors a pre-tax return of 8%, and if held for more than three years, they could take advantage of indexation benefit and earn post-tax returns of 7.5%.

For those who do not want any credit risk, tax-free bonds listed in the secondary markets could be a good investment bet. "Investors could get an yield of 6.25-6.35% which works well for those in the highest tax bracket," said Vikram Dalal, managing director, Synergee Capital. Bonds of NHAI, PFC, REC, Hudco and several other PSUs which are AAA-rated are available in the secondary market.

Wealth managers also say that investors should not act in haste even if one of the schemes they have in their portfolio has an exposure to instruments where the share price of the parent company has fallen, or the parent company's promoter has pledged a higher holding.

"Do your own math before taking a decision," said Deepak Chhabria, CEO, Axiom Financial Services.

For instance, if you hold units in a credit risk fund that has a 4% holding in a company whose parent company's share price has fallen, there is a risk of a rating downgrade which could lead to a write-off. Hypothetically, even if there is a 50% write-off, the maximum loss on your investment in the scheme is 2%. If you have invested in the scheme less than a year ago, you will have to pay an exit load of 1%.

Added to this, if you are in the high-tax bracket, you will pay short-term capital gains tax. A 30% tax on your gains, plus the exit load, will be higher than the potential loss due to the write-down in the portfolio.

Fixed income investors are a worried lot over the turn of events post the IL&FS crisis since September last year. While some debt fund schemes wrote off their investments in IL&FS after it was downgraded, it did not end there. Last week, some mutual fund schemes marked down 20-25% of their investments in road SPVs of IL&FS after they did not pay interest citing a moratorium by the NCLT N leading to a downgrade by rating agencies.

This was followed by a sharp fall in the price of Zee Entertainment last week, leading to the possibility of a rating downgrade for its various group companies and subsidiaries in which mutual funds hold debt securities.

Traders Suggest Nifty Put Spread Strategy Ahead of Interim Budget

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Mumbai: A put ratio spread on Nifty options is a strategy brokers and traders are initiating ahead of the Interim Budget for FY20. They said this could serve a dual, punting and hedging strategy before the event.

Given the sombre market mood, with fears of the fisc overshooting and bond yields rising due to a variety of reasons, put ratio is a short Nifty strategy on anticipation of the bellwether index not falling substantially below 10,100 during or post the event on February 1. It uses Nifty options expiring on February 28.

Rajesh Baheti, MD of leading arbitrage and jobbing firm Crosseas Capital Services, and Rajesh Palviya, derivatives head at Axis Securities, said the strategy could be used to punt as well as hedge one's portfolio.

It consists of buying a 10500 put and selling two 10100 puts. The sale of the two, deeper out of the money (OTM) put options indicates the trader is shorting volatility, which will drop post the event. Basis Monday's provisional closing prices, the 10500 put costs ₹139 a share while the 10100 put costs ₹56.

The sale of two 10100 puts fetches the client ₹112 a share. This helps cut the cost of the 10500 purchased put to ₹27 share. The debit being ₹27, the level below which the client begins to profit is 10,473. The maximum profit of ₹373 a share happens if the Nifty corrects to 10,100 during or post the Budget.

Below this level the profit begins to drop until 9,727 — the lower break-even point below which losses can be unlimited as the client has sold two puts. So long as the Nifty stays at or above 10,473 – the upper break-even point (UBEP)-- the maximum a client can lose is ₹27 a share.

At 10,100, the trader earns a gross profit of ₹373 as the 10500 put is in the money (ITM) by ₹400. However, since the client had debit of ₹27, the max profit is capped at ₹373. Each point below 10,100 reduces the profit till it becomes zero at 9,727.

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Market Trends

STOCK INDICES		% CHANGE
Nifty 50	10661.55	1.10
Sensex	35656.7	1.02
MSCI India	805.52	1.07
MSCI EM	2307.67	0.22
MSCI BRIC	593.92	0.51
MSCI World	8257.23	0.10
SX 40	20946.66	1.03
Nikkei	20649	0.60
Hang Seng	27576.96	0.03
Strait Times	3199.5	0.09

Values in US $. Gross At 7 pm IST

OIL ($)
DUBAI CRUDE
59.91
0.83
Absolute Change

BOND
10-YR YIELD
7.33
0.00
Figures in %

GOLD RATE
Prices per Troy Ounce ($)

	US	India
OPEN	1308.5	1414.44
LAST*	1305.3	1420.39

*At 10.30pm, After adjusting for import duty, Indian spot gold lower by $ 15.44 to US Comex gold price on Monday. The premium on local gold is due to tight supply following import curbs.

FOREX RATE (₹-$ Exchange Rate)

OPEN	LAST*
70.96	71.11

Market on Twitter@ETMarkets

Wall Street Rattled by China Worries

US stocks fell on Monday as weak forecasts from Caterpillar Inc and Nvidia Corp fueled worries about a slowdown in China taking a bigger bite off corporate profits. Investors are now pinning their hopes for a compromise between Washington and Beijing later this week.

ADANI, INDIABULLS, RELIANCE ADAG STOCKS FALL

Pledged Shares: Firms Witness Sharp Selloff

The effect of a crash in the Zee group companies, including Zee Entertainment and Dish TV shares, was visible in the stocks of companies where promoters have pledged their holdings. Zee Entertainment and Dish TV lost nearly 30% on Friday due to the sale of the pledged promoter shares in Dish TV.

The biggest losers on Monday were the shares of Adani Group companies – Adani Power and Adani Ports and SEZ. Promoter holdings across Adani group companies are pledged. A high debt in the group companies led to panic in the two group company shares, which fell 19% and 13%, respectively. Shares of Indiabulls group companies – Indiabulls Real Estate and Indiabulls Housing Finance, Reliance ADAG group companies and DHFL reported similar falls. Shares of these companies were down 5% to 12%.

In some cases, the promoters have raised money in the unlisted holding companies through which they hold shares of the listed companies. The underlying collateral is mostly the shares of the listed companies. Any likelihood of the holding company not able to meet its debt obligations may lead to selloff in the counters of the listed companies. For instance, Wadhawan Global Capital, Cyquator and Geetanjali Trading and Investments the holding companies of DHFL, Zee Entertainment and Asian Paints, respectively, have raised money from mutual funds. – **Jwalit Vyas/ETIG**

Pledged promoter shares

BSE 200 Companies	Promoter (%)		Gain/Loss (in %)	
	Holding	Shares Pledged	Monday	Friday
Adani Power	75.0	29.3	-18.6	-5.4
Adani Ports & Special Economic Zone	62.3	45.5	-12.7	-1.6
Max Financial Services	28.4	81.2	-6.6	-2.7
Indiabulls Housing Finance	21.5	12.7	-6.3	-3.8
Reliance Capital	52.0	74.6	-5.3	-1.4
Reliance Infrastructure	48.4	83.6	-4.9	-3.8
Jindal Steel & Power	58.7	50.2	-3.7	-2.9
Emami	72.7	47.6	-3.3	0.1

Promoter companies that have borrowed from mutual funds

Holding Co	Listed Co
Cyquator Media Services	Zee Entertainment
Wadhawan Global Capital*	DHFL*
Bhanu Vyapar, Diwakar Viniyog, Prabhakar Vinniyog, Suraj Viniyog, Suntrack Commerce	Emami
Geetanjali Trading & Investments	Asian Paints

*Does not show as pledged; Source: **ETIG Database**

L&T Surprises Street, Maintains Guidance

ET ANALYSIS

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ET Intelligence Group: The dance of democracy usually delays decision-making in Lutyen's Delhi and its repercussions are often felt in Mumbai – home to India's biggest infrastructure companies. But the run-up to the 2019 general elections appears to be an exception. Against expectations of a 30-40% decline in order inflows in the third quarter, Larsen & Toubro rather surprised the Street, maintaining its full-year growth guidance.

That should extricate the stock from its narrow trading range, as some brokerages have already begun to suggest. Kotak Institutional Equities increased L&T's order inflows estimate (ex-services) to 6.2% and 9.9% for FY19 and FY20, respectively, from an earlier forecast of 2.5% and 8.1%.

Order inflows in the December quarter stood at ₹42,130 crore thanks to domestic infrastructure demand. L&T requires orders of ₹48,000-51,000 crore in the March quarter to achieve the full-year guidance, and India's biggest engineering company appears to be on course.

It has total order prospects of ₹1.6 lakh crore in the March quarter, of which about 63% is from the infrastructure segment. This means a 31% hit rate would suffice. Also, there is deferment of about ₹20,000 crore of orders that are likely to tendered in the March quarter. Finally, with just about a fifth of the prospective orders coming from the Centre, the disruption should be rather limited.

To be sure, 29% and 37% of total orders at L&T are from state governments and PSUs, respectively. State government orders are less affected by the outcome of the general elections, and deficits rarely prevent them from tendering out orders.

Separately, L&T's execution growth at 22% was ahead of estimates. The revenue growth at the parent level has revived in the past eight quarters, led by higher execution of domestic infrastructure projects.

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